

*United States Court of Appeals  
for the Second Circuit*



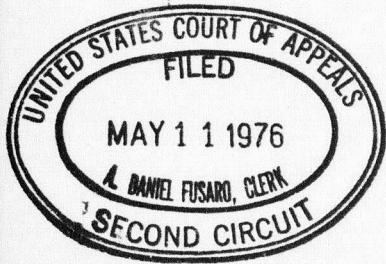
**APPELLANT'S  
REPLY BRIEF**



76-7052

UNITED STATES COURT OF APPEALS

For the Second Circuit



NELSON BUNKER HUNT, W. HERBERT HUNT and LAMAR HUNT,

Plaintiffs-Appellants,

-against-

MOBIL OIL CORPORATION, TEXACO, INC., STANDARD OIL COMPANY OF CALIFORNIA, THE BRITISH PETROLEUM COMPANY, LTD., SHELL PETROLEUM COMPANY, LTD., EXXON CORPORATION, GULF OIL CORPORATION, OCCIDENTAL PETROLEUM CORPORATION, GRACE PETROLEUM CORP. and GELSENBERG AG,

Defendants-Appellees.

Appeal from a Judgment of the United States District Court for the Southern District of New York

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REPLY BRIEF OF PLAINTIFFS-APPELLANTS  
NELSON BUNKER HUNT, W. HERBERT HUNT  
AND LAMAR HUNT

---

PAUL, WEISS, RIFKIND, WHARTON & GARRISON  
Attorneys for Plaintiffs-Appellants  
345 Park Avenue  
New York, New York 10022  
(212) 644-8000

Jay H. Topkis  
Daniel P. Levitt  
Anthony M. Radice  
Kenneth Berlin

Philip J. Hirschkop, Esq.  
Philip Hirschkop & Associates, Ltd.  
P. O. Box 1226  
Alexandria, Virginia 22313

Of Counsel

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UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

Docket No. 76-7052

NELSON BUNKER HUNT, W. HERBERT HUNT  
and LAMAR HUNT,

Plaintiffs-Appellants,

-against-

MOBIL OIL CORPORATION, TEXACO, INC.,  
STANDARD OIL COMPANY OF CALIFORNIA,  
THE BRITISH PETROLEUM COMPANY, LTD.,  
SHELL PETROLEUM COMPANY, LTD., EXXON  
CORPORATION, GULF OIL CORPORATION,  
OCCIDENTAL PETROLEUM CORPORATION, GRACE  
PETROLEUM CORP. and GELSENBERG AG,

Defendants-Appellees.

REPLY BRIEF OF PLAINTIFFS-APPELLANTS

I

THE ACT OF STATE DOCTRINE IS INAPPLICABLE BECAUSE THE LEGALITY OF LIBYAN ACTS IS NOT IN ISSUE

Defendants' sweeping construction of the act of state doctrine would bar every claim where a sovereign act was in any way involved in the underlying events. Apart from contrary precedent, common sense suggests the foolishness of such all-encompassing judicial abstension. When the act of a foreign state is found lurking anywhere in the facts supporting a

plaintiff's claim, judicial abstension is not blindly automatic, but becomes a question of applying distinctions inherent in the purpose of the act of state doctrine. The Supreme Court's own application of the doctrine shows the distinction pertinent here: judgments as to the legality of sovereign acts are not permissible, but factual inquiry and factual determination as to what a state did and the effect of that action are permissible. The third count of the instant complaint requires only the latter, not the former.

In their efforts to squeeze the third count into the American Banana mold, defendants deal only with the act of nationalization, while ignoring their own conduct and its effects on plaintiffs' business. They also ignore the fact that the conspiracy to jeopardize Libyan oil in general and Hunt in particular had two aspects. Long before Hunt's nationalization in 1973, defendants had acted in concert to make Libyan oil less competitive with Persian Gulf oil. By separating negotiations in Libya and the Persian Gulf, delaying agreements with Libya and manipulating negotiating terms, the majors were able to reach agreements with the Persian Gulf countries on prices, royalties, participation and other terms of trade more favorable to the majors than the terms of any Libyan agreement (JA 22, 25). The effect was to make Libyan

oil successively less competitive in the third party markets where plaintiffs sold all of their oil.\* This crucial aspect of the third count has nothing to do with the 1973 nationalization.

Second, defendants undertook actions without which plaintiffs would not have been nationalized. The nationalization did not result from the majors pressuring the Libyans to nationalize plaintiffs or from a conspiracy between the Libyans and the majors. Rather, it resulted from a conspiracy among the majors directed at plaintiffs which foisted on them both a negotiating posture and the burdens of the LPA which prevented them from agreeing with Libya, causing the nationalization (JA 25, 26, 33).

A finding that the Libyan nationalization was unlawful or improper under any legal standard is not an ingredient of either aspect of this claim. This distinction

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\* The majors are integrated companies able to pass price and royalty increases to their downstream operations and ultimately to the consumer. Moreover, their Libyan production was small and readily sacrificed in favor of their massive Persian Gulf interests (JA 12, 13). Hunt, on the other hand, had its only international production in Libya and sold all its crude oil to oil companies including the majors in the third party market. (JA 14) The decreasing profitability of Libyan oil injured plaintiffs after the nationalization as well, since the LPA replacement oil received (and owed but withheld) in 1973 and 1974 was similarly disadvantaged.

between making legal and factual determinations arises from the two interrelated judicial concerns on which the act of state doctrine is based.

The lack of manageable standards by which to judge the validity of foreign acts of state and the possibility that such judging might interfere with or embarrass the conduct of foreign relations by the political branches are the dual underpinning of the doctrine. Banco Nacional de Cuba v. Sabbatino, 376 U.S. 398, 423 (1964); First National City Bank v. Banco Nacional de Cuba, 406 U.S. 759, 765-768 (plurality opinion of Mr. Justice Rehnquist), 788 (dissenting opinion of Mr. Justice Brennan.) (1972) Neither concern is raised by the third count. Inquiry into the facts relating to the nationalization -- where there is no charge that the conspiracy included Libya or that the nationalization was illegal -- will not require this Court to apply disputed legal standards to any Libyan act. Nor can it embarrass the executive branch, since the Court is not called upon to approve or disapprove Libya's acts. The focus of the inquiry, which only concerns the second aspect of the conspiracy, is simply whether Hunt could have avoided nationalization if it had taken a different negotiating posture.

Defendants' own authorities demonstrate this distinction. In each, the court was compelled to judge the legality or validity of the act of a foreign state in order to adjudicate plaintiff's claim.

American Banana Company v. United Fruit Company, 213 U.S. 347 (1909), is defendants' principal authority. But whatever survives of that often repudiated decision\* is inapplicable here. Unlike the present case, the conspiracy in American Banana was between the defendant and a foreign government. More important, the plaintiff challenged the seizure of his property by Costa Rica and the judgment of a Costa Rican court which further deprived him of his property. The plaintiff alleged that the judicial proceedings were not within the jurisdiction of Costa Rica, were contrary to Costa Rican law and void, 213 U.S. at 355, and that the government seizure was similarly illegal. As the district court held, "it is impossible to adjudicate this matter without sitting in

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\* The decision rests upon a repudiated reading of the jurisdictional limits of the antitrust laws (Pl. Br. at 18). It also relies upon equally obsolete notions of sovereign immunity, see Banco Nacional de Cuba v. Sabbatino, 376 U.S. at 421, and it never mentions the current cornerstones of the "act of state" doctrine as described above.

judgment on the right of Costa Rica to do what was done."

160 Fed. 184, 188 (C.C. S.D.N.Y. 1908). In short, plaintiff's claim required an American court's finding Costa Rican acts unlawful or ineffective.

Resolution of the issues raised in Occidental Petroleum Corp. v. Buttes Gas & Oil Co., 331 F. Supp. 92 (C.D. Cal. 1971), aff'd per curiam, 461 F.2d 1261 (9th Cir.) cert. denied, 409 U.S. 950 (1972) would also have required the court to judge the legality of the acts of a foreign state.\* Unlike the present case, the defendants were charged

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\* In naming a foreign state as a co-conspirator, the Buttes complaint marched into the jaws of that tenet of the act of state doctrine which guards against embarrassment to United States foreign policy.

The Buttes court rejected, as inconsistent with the pleadings, which named one of the shiekdoms as a co-conspirator, plaintiff's belated contention that they were not requesting a determination of the validity of any governmental act. The complaint expressly alleged "improper" acts of a sovereign:

"Defendants then induced the Ruler of Sharajah for his own personal gain and benefit, . . . and falsely to assert and claim that the location therein specified was within the concession area granted to [defendants] by him" 331 F. Supp. at 99 n. 11(c).

"exclusively, with 'inducing and procuring assorted executive acts by foreign states.'" 331 F. Supp. at 107. To uphold the claim, the Buttes court would have had to find these government acts fraudulent or illegal, and specifically find that the ruler of Sharajah had issued a fraudulent territorial waters decree, 331 F. Supp. at 110. Hunt's claim, however, is utterly unrelated to the legality of Libya's conduct. Defendants' conspiracy induced Hunt, not Libya, to take certain acts. Legal acts by Libya cannot insulate from suit defendants' illegal conspiracy directed at plaintiff.

United States v. Sisal Sales Corp., 274 U.S. 268 (1927), the landmark Supreme Court decision somehow sought to be avoided by defendants as "not an act-of-state case," illustrates the well-established propriety of factual inquiry into acts of state where judgment as to legality is not involved.\* Discriminatory legislation of Mexico and Yucatan

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\* Defendants' reading of Sisal as a jurisdiction case, not involving the act of state doctrine, stands Sisal on its head. The district court in Sisal held that American Banana Co. v. United Fruit Co., *supra*, was controlling and thus barred the action on "act of state" grounds. In reversing the district court, the Supreme Court distinguished American Banana on the ground that it applied the wrong jurisdictional standard to an antitrust action. But, in reversing, it held that the "act of state" doctrine did not apply even though the defendants' scheme was aided by discriminatory legislation of a foreign government.

-- undeniably political and public acts of state -- was a central part of defendants' antitrust conspiracy and was alleged to have contributed to plaintiff's injury. But the court there, as here, did not have to judge the legality of the legislation in order to adjudicate defendants' conduct. As here, the illegality of defendants' conduct was not dependent on the alleged impropriety of a foreign state's conduct. The Supreme Court held the conduct was not shielded by the act of state doctrine.

## II

CAUSATION IS PLEADED; ITS PROOF IS NOT  
BARRED BY THE ACT OF STATE DOCTRINE

The District Court followed a line of reasoning misconstrued by defendants. The District Court did not, as defendants argue, find the complaint deficient because of any failure to plead causality between defendants' acts and plaintiffs' injury. It was concerned with causation in fact, not as pleaded, and only insofar as the act of state doctrine arguably restricted inquiry.

An antitrust plaintiff must, in order to prevail, prove a sufficient causal connection between his injury and defendants' actions.\* Here acts of Libya - the nationalization - did cause injury to plaintiffs. The court below reasoned that if this was an independent and wholly sufficient cause of plaintiffs' injury -- one that would have happened regardless of defendants' actions -- then the causal link between defendants' actions and the injury may be insufficient because of a lack of proximity. The District Court held that it was

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\* The cases cited by defendants (Def. Br. at 24, 25) and the District Court (JA 99) stand for this basic principle of proof. None attempt the resolution of causation problems on the face of the complaint when causation is sufficiently pleaded.

[footnote cont'd]

forbidden to make any "inquiry into acts and conduct of Libyan officials, Libyan affairs and Libyan policies" (JA 99, 100), even though only for the purpose of determining whether defendants' "acts and conduct were a material cause of [plaintiffs'] damage" (JA 99).

That holding is in error, as described earlier, because the inquiry the District Court believed to be forbidden is a factual inquiry ending in a factual determination; it does not involve the rendering of any legal judgments upon Libyan acts. But defendants' attempts to convert the Court's opinion into a decision that causation per se was not pleaded are misguided.

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[footnote cont'd]

In National Auto Brokers Corp. v. General Motors Corp., 60 F.R.D. 476, 490, 491 (S.D.N.Y. 1973) the court held that a class action could not be maintained because the question of whether a plaintiff suffered damages was particular to each individual plaintiff. In Salerno v. American League of Professional Baseball Clubs, 429 F.2d 1003, 1004 (2d Cir. 1970) cert. denied, 400 U.S. 1001 (1971) this court held only that the wrongful discharge of an employee does not become an antitrust violation simply because the employer is a monopolist and that no restrictive trade practices were directed at the employee. Winckler & Smith Citrus Products Co. v. Sunkist Growers, Inc., 346 F.2d 1012 (9th Cir.), cert. denied, 382 U.S. 958 (1965) was an appeal taken from a judgment dismissing the action for failure to prosecute, after remand for a new trial. The issue presented for retrial was whether circumstances other than the antitrust conspiracy, such as inefficient operation, had driven the plaintiff out of business. The plaintiff admitted it could not prove that its loss resulted from the conspiracy. The decision to dismiss was based on the trial and appellate record, and upon plaintiff's admission, not on the bare pleadings alone.

The complaint alleges that, but for the conspiracy of the defendants, plaintiffs would have retained their competitive advantage in Libyan oil, reached agreement with Libya, not been nationalized and would still be in the business of marketing crude oil internationally. Direct causation is clearly pleaded. Defendants' argument that "Libya did it, not us" may present a factual issue for trial. But defendants who push a victim into the path of a Mack truck are not immune from liability because the truck touched him last.\*

The same kind of causation problem was before the Supreme Court in Sisal, supra. There, "the conspirators were aided by discriminating legislation," which was a cause of the injury. Resolution of that causation issue necessitated inquiry into governmental actions, in order to determine that the same result would not have occurred without defendants'

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\* To continue the analogy, whether the truck was within the legal speed limit had no bearing on defendants' liability. The action against defendants' joint tort would properly proceed without the need to determine the legality of the truckdriver's act.

conspiracy. The Supreme Court permitted the inquiry. The court below did not.

Finally, defendants' unique "causation" theory, as well as the District Court's act-of-state reasoning, too narrowly construe plaintiffs' claim and injury as based exclusively on the nationalization. Plaintiffs also allege that the defendants conspired to make the price of Libyan oil less competitive, thereby damaging plaintiffs' business. The acts of Libya involved in these events --- the negotiations and agreements between Libya and the oil companies -- were traditional commercial acts regarding the price, royalty and other terms of trade. Only commercial - and therefore judicially cognizable (Pl. Br. at 22) - acts of Libya are present.

## III

IF THE ACT OF STATE DOCTRINE IS  
APPLICABLE, IT SHOULD BE RECONSIDERED

It is plaintiffs' position that, as presently construed, the act of state doctrine is applicable only to determination of the legality of sovereign acts and is not applicable here. If, however, the remains of American Banana and the aberration of the trial court's decision in Buttes do not otherwise permit this distinction to be made, plaintiffs urge a redefinition of the doctrine to establish this distinction. As plaintiffs pointed out (Pl. Br. at 37-42), trends in the law as well as current events make the time propitious for confining the doctrine to its legitimate purposes.

In its decision on the merits and its certification of the appeal, the court below noted that the recent disclosures of payoffs by multi-national corporations to foreign officials "warrant consideration in the public interest of the continued viability of the 'act of state' doctrine" (JA 123, JA 102). Defendants respond that discussion of these payoffs is scandalous, not in the record and should be stricken. Plaintiffs agree that such payoffs are scandalous. The scandal, however, is not in their disclosure, but in the

acts themselves. Moreover, striking language from a brief would not erase such conduct from the public record, wherein some of these same defendants have admitted to the events. Finally, just as the multi-national corporations misunderstood the morality of those payments, defendants misunderstood the purpose of the District Judge's reference to them. No one wishes to litigate those acts in this lawsuit. But this Court can take account of the fact that when a doctrine designed to protect the integrity of United States foreign policy is utilized to shield illegal conduct that embarrasses that foreign policy, it has outlived its usefulness.\*

Plaintiffs pointed to legal developments which have put the doctrine in a state of flux. To support its alleged vitality, defendants curiously cite two cases involving no foreign acts, United Mine Workers of America v. Pennington, 381 U S. 657 (1965); Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127, 138 (1961). These

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\* Since the filing of plaintiffs' main brief, the Federal Trade Commission announced that it is investigating General Tire & Rubber Co. to determine if General Tire violated the antitrust laws by payoffs allegedly made in Morocco in an attempt to keep an American competitor out of the country. Wall Street Journal, at p. 4 (April 28, 1976). Add the FTC to the list of Executive Departments - State and Justice - with whom the act of state doctrine is not in favor.

cases establish a doctrine, based on first amendment considerations, that two or more persons can jointly seek to persuade government officials in this country. The doctrine has no applicability abroad, and no connection to the "act of state" doctrine. See the opinion below, JA 87.

In contrast, the government's position in Menendez v. Saks and Company, 485 F.2d 1355 (2d Cir. 1973, cert. granted sub nom., Alfred Dunhill of London, Inc. v. Republic of Cuba, 416 U.S. 981 (1974), reargument ordered, 422 U.S. 1005 (1975), fully supports plaintiffs' claim that the "act of state" doctrine should be redefined so as not to provide an unintended haven for lawbreakers (Pl. Br. at 38-39). The State Department specifically represented to the Court that the conduct of United States foreign policy would not be embarrassed if Sabbatino were overruled, and its position was not limited to the facts of Dunhill as defendants suggest.

The Dunhill case, in which Sabbatino is being reconsidered, is sub judice before the Supreme Court. If Sabbatino is reversed, the act of state doctrine would not bar any type of inquiry into a nationalization determined to be unlawful by the Executive Department. Defendants admit that here the State Department has already found the Libyan nationalization

of Hunt to be unlawful.\* Accordingly, reversal of Sabbatino would enable this Court to examine the nationalization unhindered by the act of state doctrine.

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\* Defendants in their brief admit that plaintiff can bring hot oil suits on the basis of the Hickenlooper Amendment to the Foreign Assistance Act of 1961, 78 Stat. 1013, as amended, 22 U.S.C. § 2370 (e)(2). That amendment grants certain rights to the owner of property to bring suit to redeem such property if it were seized illegally under principles of international law. The United States delivered to the Libyan government on July 8, 1973, the following note:

"The United States Government has now had the opportunity to review the public statement by the Chairman of the Revolutionary Command Council on June 11, 1973, and the official commentary accompanying Law No. 42 of the same date. It is clear from those pronouncements that the reasons for the action of the government of the Libyan Arab Republic Government against the rights and property of the Nelson Bunker Hunt Oil Company were political reprisal against the United States Government and coercion against the economic interests of certain other U.S. nationals in Libya. Under established principles of international law, measures taken against the rights and property of foreign nationals which are arbitrary, discriminatory, or based on considerations of political reprisal and economic coercion are invalid and not entitled to recognition by other states.

In these circumstances, the United States Government must protest the action in violation of international law against the Nelson Bunker Hunt Oil Company." Department of State, Digest of United States Practice in International Law, at 335 (1973); Department of State File No. PET 15-2 Libya; also see the New York Times, Aug. 8, 1973, p.1.

## IV

**THE DISTRICT COURT PROPERLY  
EXERCISED ITS DISCRETION IN  
GRANTING 54(b) CERTIFICATION**

Defendants argue that the District Judge abused his discretion when he entered final judgment under Rule 54(b), thereby permitting this appeal. Rule 54(b) states in pertinent part:

"When more than one claim for relief is presented in an action...the court may direct the entry of a final judgment as to one or more...claims...only upon an express determination that there is no just reason for delay and upon an express direction for the entry of judgment."

Since all requirements were present, the Court had only to find "no just reason for delay". It so found:

"Were plaintiff's instant motion under Rule 54 (b) denied, and thereafter in the event of any appeal from any judgment entered with respect to plaintiff's first two claims, were this court's dismissal upon appellate review as to the third claim reversed, it would mean another long trial, as is forecast on the remaining claims. This would require a duplicative trial and additional but unnecessary expense to the parties." (JA 123)

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\* Defendants' 54(b) argument rests on the Third Circuit's "infrequent harsh case" standard. The short answer to this whole point is that that is not the standard. This Court, like the court below, applies the language of the rule itself - "no just reason for delay" - not the inaccurate paraphrase of the Rule from the Third Circuit.

The District Court noted other factors that also warranted an immediate appeal from the judgment, such as the "desirability of a reassessment of the 'act of state doctrine'"\* and that the appeal would not "delay the prospective trial" nor "interfere with the discovery process." There are additional, practical reasons in support of the District Court's certification. Despite the factual similarity of all three antitrust counts, the defendants have used dismissal of count 3 unjustifiably to withhold materials they choose to call "count 3" matter (see e.g., Record at 90-93, 96, 98-101, 103). The sooner the legal validity of count 3 is finally ascertained, the sooner the scope of discovery will be resolved and these tactics on the part of the defendants curbed.\*\*

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- \* Defendants (Def. Br. at 40) once again fail to understand why the court below referred to corporate payoffs to foreign officials. These scandals, of course, are not themselves the basis for 54(b) certification of the instant appeal; they merely show the "desirability" of appellate reconsideration of the act of state doctrine.
- \*\* This is not to say that plaintiffs are powerless to prevent such nonsense. But the process of extracting what information plaintiffs are entitled to is made more burdensome.

Finally, the specter of another appeal involving the act of state doctrine and counts 1 and 2 is a false issue. The District Court quickly rejected that argument as "misdirected" on defendants' motion to dismiss (JA 89, JA 94) and found no appealable issue on defendants' motion to appeal under 28 U.S.C. § 1292(b). (Supplemental Record at 156)

Every factor favors prompt appellate review as to count 3. Judge Weinfeld did not abuse his discretion.

Conclusion

For all of the foregoing reasons, the decision below should be reversed and count 3 of the complaint reinstated.

Respectfully submitted,

PAUL, WEISS, RIFKIND, WHARTON  
& GARRISON  
Attorneys for Plaintiffs-Appellants  
345 Park Avenue  
New York, New York 10022  
(212) 644-8000

Dated: May 11, 1976

Of Counsel

Jay H. Topkis  
Daniel P. Levitt  
Anthony M. Radice  
Kenneth Berlin

Philip J. Hirschkop, Esq.  
Philip Hirschkop & Associates, Ltd.  
P. O. Box 1226  
Alexandria, Virginia 22313

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

-----x  
NELSON BUNKER HUNT,

Plaintiff, : 75 Civ. 1660 EW

:  
- against - : AFFIDAVIT OF SERVICE  
: BY MAIL

-----x  
MOBIL OIL CORPORATION, et al., :

Defendants. :

STATE OF NEW YORK )  
: ss.:  
COUNTY OF NEW YORK )

DEBORAH MORRIS, being sworn, deposes and says:

1. I am not a party to the action, am over 18 years  
of age and reside at 135 East 50th Street, New York, New York  
10022.

2. On May 11, 1976, I served a true copy of the  
annexed Memorandum of Law upon the following attorneys at the  
addresses listed below, by depositing the same, enclosed in  
properly addressed and sealed postpaid envelopes, in a de-  
pository maintained by the United States Postal Service within  
the State of New York:

John E. Bailey, Esq.  
Law Department  
Gulf Oil Company - U.S.  
Post Office Drawer 2100  
Houston, Texas

Richard H. Zahm, Esq.  
Mobil Oil Corporation  
150 East 42nd Street  
New York, New York 10017

Robert Salman, Esq.  
Phillips, Nizer, Benjamin, Krim & Ballon  
40 West 57th Street  
New York, New York 10019

Bruce A. Hecker, Esq.  
Shea, Gould, Climenko, Kramer & Casey  
330 Madison Avenue  
New York, New York 10017

Gordon B. Spivack, Esq.  
Lord, Day & Lord  
25 Broadway  
New York, New York 10004

Turner H. McBaine, Esq.  
Pillsbury, Madison & Sutro  
225 Bush Street  
San Francisco, California 94104

Leo Larkin, Esq.  
Grace Petroleum Corporation  
1114 Avenue of the Americas  
New York, New York 10036

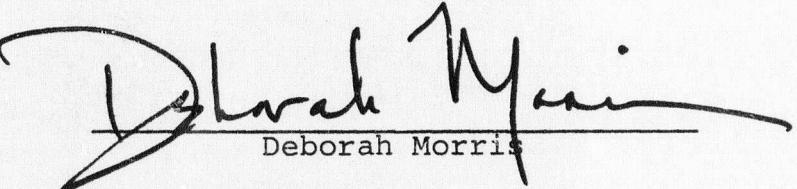
Robert MacCrate, Esq.  
Sullivan & Cromwell  
48 Wall Street  
New York, New York 10005

John J. Hayes, Esq.  
Windels & Marx  
51 West 51st Street  
New York, New York 10019

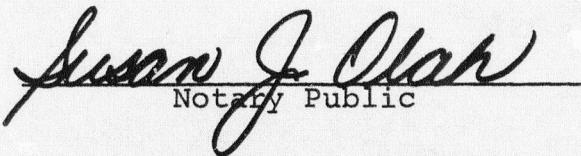
John Hupper, Esq.  
Cravath, Swaine & Moore  
One Chase Manhattan Plaza  
New York, New York 10005

25% RAG Content  
Milton J. Schubin, Esq.  
Kaye, Scholer, Fierman, Hays & Handler  
425 Park Avenue  
New York, New York 10022

Charles F. Kazlauskas, Jr., Esq.  
Texaco, Inc.  
135 East 42nd Street  
New York, New York 10017

  
Deborah Morris

Sworn to before me this  
11<sup>th</sup> day of May, 1976.

  
Susan J. Olah  
Notary Public

SUSAN J. OLAH  
Notary Public, State of New York  
No. 31-4605174  
Qualified in New York County  
Commission Expires March 30, 1977

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

NELSON BUNKER HUNT,

Plaintiff,

-against-

MOBIL OIL CORPORATION, et al.,

Defendants.

AFFIDAVIT OF SERVICE BY MAIL

**Paul, Weiss, Rifkind, Wharton & Garrison**

Attorneys for Nelson Bunker Hunt

**345 PARK AVENUE, NEW YORK, N. Y. 10022**  
**644-8000**

All communications should be referred  
to Daniel P. Levitt, Esq.